

November 12, 2004

Board of County Commissioners (Current)

Alan B. Armijo, Chair

E. Tim Cummins, Vice Chair

Steve D. Gallegos, Member

Tom Rutherford, Member

Michael Brasher, Member

One Civic Plaza, 10<sup>th</sup> Floor

Albuquerque, New Mexico 87102

Dear Commissioners:

County Management hereby submits the Comprehensive Annual Financial Report (CAFR) of the County of Bernalillo (the County), New Mexico, for fiscal year ending June 30, 2004. The responsibility for the accuracy of the information presented and the completeness and fairness of presentation, including accompanying notes and disclosures rests with County Management. As indicated by the independent auditors' report, the financial statements fairly present the financial position and the results of County operations as measured by the financial activity of its various funds. The purpose of the CAFR is to provide citizens, investors, grantor agencies, regulating agencies and other interested parties with reliable financial information about the County.

The County prepares the CAFR using the financial reporting requirements as prescribed by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments* (GASB 34). The GASB Statement requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

The County's CAFR consist of four major sections:

1. The Introductory Section includes this letter of transmittal that provides information about the organizational structure of the County, the County's economy, internal control structure, budgetary controls, cash management, and risk management.
2. The Financial Section is prepared in accordance with GASB 34 requirements by including the MD&A and the Basic Financial Statements including notes. The Basic Financial Statements include government-wide financial statements that present an overview of the County's entire financial operations and the fund financial statements that present the financial information of each of the County's major funds, as well as non-major governmental, proprietary, fiduciary and other funds. Also included in this section is the Independent Auditors' Report on the financial statements and schedules.
3. The Statistical Information Section contains tables that include general information about the County and the comparative data for prior years.
4. Single Audit Information includes the Schedule of Expenditures of Federal Awards as required by the Single Audit Act and the related findings and recommendations by the County's independent auditors.

The CAFR of the County includes all government activities, organizations and functions for which the County is financially accountable. The criteria for determining the governmental activities and potential component units to be reported in the County's combined financial statements are set forth in Note I. A., Page 35, to the financial statements. Based on the criteria, this report includes a wide variety of services such as public safety, highways and streets, sanitation, health and social services, culture and recreation, public improvements, planning and zoning and general administrative services. Additionally, the Bernalillo County Housing Redevelopment Corporation is included, as a component unit, in this report. Excluded from this report are the Bernalillo County Mental Health and Retardation Center and University Hospital/Bernalillo County Medical Center because they do not meet the criteria for inclusion as component units as defined in Note I. A. to the financial statements.

## **PROFILE OF THE COUNTY**

Bernalillo County is located in the central region of the state and is the economic and population hub of New Mexico. Its boundaries encompass the entire City of Albuquerque. With 556,678 residents (2000 Census), the County ranks 100<sup>th</sup> in population of the nation's 3,141 counties. It comprises nearly 31% of New Mexico's population and 80% of the three county Albuquerque Metropolitan Statistical Area, (MSA); Sandoval and Valencia being the other two counties.

The County provides public safety, highways and streets, sanitation, cultural and recreational services, public improvements, building, planning and zoning, and general administrative services. The County has a Commission-Manager form of government in which most of the day-to-day administrative duties are delegated to a County Manager. All legislative power within the County is vested in a five-member Board of Commissioners, each of whom are elected for four-year terms from single member districts, with a two-term limit. The executive functions are divided; the powers are shared by the Board and four elected County officials: the Treasurer, Assessor, Clerk, and Sheriff.

The County maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board. The County's legal level of budgetary control is at the fund level, except for the Emergency Medical Services and Fire Districts funds, whose legal level of budgetary authority is at the program or district level. Appropriations within a fund may be adjusted with the approval of the County Manager or Deputy County Managers as long as the total fund appropriations remain the same. Appropriation adjustments between funds require approval of the Board and the New Mexico State Department of Finance and Administration (DFA). The Local Government Division of DFA is the agency responsible for regulating the budgetary affairs of the County. Budget adjustments that do not require DFA approval are limited to transfers of budget between departments within a fund or transfers between line items within a department within a fund. State statutes prohibit the County from making expenditures in excess of the final approved budget at the fund level. The appropriated amounts reflected in the accompanying financial statements represent object class by department.

County management is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required in order to assess the expected benefits and related costs of internal control structure policies and procedures.

All internal control evaluations occur within this framework. The internal control structure is designed with the objective of providing the Board with reasonable assurance that assets are safeguarded against loss resulting from unauthorized use or disposition and that transactions are executed in accordance with the Board's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. The County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

## **FACTORS AFFECTING FINANCIAL CONDITION**

### **Local Economy**

Bernalillo County, with Albuquerque making up 80% of its population, has emerged as a hub for commerce and industry in the Southwest. It accounts for nearly half of all economic activity in New Mexico. In the 2004 *Sperling's BestPlaces*, the Albuquerque MSA ranked 12<sup>th</sup> overall out of the top 200 metro areas in the country. Albuquerque MSA in the Cost of Doing Business category ranked number one (based on cost of labor, energy, taxes and office space), 42<sup>nd</sup> in Job Growth category, and 39<sup>th</sup> in the Educational Attainment category (based on share of populations over age 25 with a bachelor's degree or higher).

According to the University of New Mexico's Bureau of Business and Economic Research (BBER), the Albuquerque MSA economy finally picked up the pace in the second quarter of 2004 following a slow recovery from mild recession in the last half of 2001 and the first half of 2002. For the first time in almost three years, non-farm employment growth exceeded 1.0 percent, posting a 1.6% gain (5,800 net new jobs). Personal income growth also appeared relatively strong, reaching an estimated 5.9% in the second quarter of 2004. The second quarter unemployment rate was 4.8%, down almost a full percentage point from the 5.7% rate a year

ago. The impetus for the second quarter surge came from several sources, including the employment sectors enjoying significantly higher growth in the second quarter than in the first quarter of the year. Natural resources, mining, and construction employment growth increased to 5.2 % in the second quarter from 3.7% in the first.

New housing units were slightly lower in the Albuquerque MSA. Throughout the Albuquerque MSA single-family housing units were down .6% according to the second quarter 2004 *Albuquerque Metropolitan Housing Digest*, published by the Home Builders Association of Central New Mexico. During the second quarter the total value of contracts awarded for new construction increased 5.8%, compared to a year ago. Residential contracts jumped 21%, non-residential building contracts plunged 25.4%, and contracts for other than buildings leaped 25.7%.

Several employment sectors, manufacturing, wholesale trade, and information, continued to decline. These three sectors, accounting for about twelve percent of Albuquerque MSA employment, have each been in the decline mode for the last two years. Manufacturing has been subject to extensive layoffs and plant closures for several years, the most recent being the closings of Philips Semiconductors and Honeywell ACS with the loss of almost 800 jobs. Manufacturing employment dropped another 3.4% during the second quarter of 2004. Retail trade employment growth increased to 1.5% in the second quarter of 2004 from non-growth in the preceding period, a substantial increase for so large a sector, and a major contribution to total employment growth. Local government was another sector with accelerating employment growth during the second quarter of 2004, posting a 3.2% increase following a 2.0% gain in the preceding quarter. The largest contributor of the number of jobs was in the educational services, health care and social assistance sector which added 2,133 employees, a 5% gain.

### **Capital Improvements Program**

Each year the Board of County Commissioners updates the Capital Improvements Program (CIP) in order to plan, both long and short range financing for the County's capital projects. The CIP process provides for the development and submittal of requests for the annual and six-year requests for the Capital Improvements Program. A wide range of public facilities and equipment is considered in the CIP. There are statutory requirements that provide for design, construction, major repair, reconstruction or replacement of facilities such as buildings, jails, courthouses, roadways, bridges, parks, and some heavy equipment. The County can use several types of funding for the CIP that includes General Obligation Bonds, Revenue Bonds, Special Assessment District Bonds, Federal grants and State grants and appropriations.

Citizen involvement is solicited to determine and prioritize the needs of the County by holding public meetings. The Board of County Commissioners holds periodic advertised meetings at various locations within each Commission District to solicit public input and discuss the public's requests. Capital improvement projects selected by the Board and adopted in the CIP that are to be funded by General Obligation Bonds are placed on the ballot in the next General Election. The General Obligation Bond schedule is based on a two-year cycle and issuance is currently limited to \$16 million dollars by the Board of County Commissioners. Other Capital improvement projects are included in the State of New Mexico Infrastructures Program for funding consideration.

## Tax Structure

Taxable property valuations were \$9.633 billion in 2004, a \$349 million increase from the previous year. Current property tax collections are 95.40% of the levy, compared to 94.82% in the prior year. The property tax burden has shifted significantly to residential property since the current tax system was put in place in the mid-1980s. In 1986 non-residential property comprised 46% of the net taxable valuation, but today in the wake of several property revaluations, this figure has dropped to 29%. In the 2003 tax year, the property base (valuations) grew 3.8%. Property revaluations represented a 1.1% increase. New construction grew by 2.7%.

Tax on revalued property is limited by the yield control formula. New construction represents a source of new tax revenue for the County. The State of New Mexico's yield control adjustment limits the tax increase from existing property to five percent or the cost of living factor whichever is less. This year the adjustment was limited to 1.2% percent for existing properties. Future increases in residential property tax values will be limited to three percent until the property is sold. As a result, mill levies are expected to increase and the County's bonding capacity will be affected. Allocation of the mill rate for fiscal year 2004 (tax year 2003) and the prior year is based on the following:

Operational:	<u>2004</u>	<u>2003</u>
Residential	7.007	5.918
Non-residential	11.600	10.520
Debt Service	.830	.950
Open Space	.250	.250
Judgement	.067	.000

The County gross receipt tax rate is 5.375% as of June 30, 2004. There was an increase of approximately 5.6% in gross receipts tax revenue in fiscal year 2004 compared to an increase of 6.3% percent in the previous year. The breakdown and sources of the gross receipt tax rate are as follows:

	<u>Tax Rate</u>	<u>Percent</u>
State General Fund	5.000	93.1%
County Wide	0.250	4.6%
County Environmental (outside City limits)	0.125	2.3%

Additional information about revenues, tax rates, and levies is presented in the statistical section of this report.

## CASH MANAGEMENT AND INVESTMENTS

Cash temporarily idle during the year was invested in flexible repurchase agreements, the New Mexico State Treasurer's Investment Pool, certificates of deposit, Government National Association (GNMA) securities, and Private Export Funding Corporation securities as authorized by New Mexico State Statute and the County's investment policy. It is the County's policy to minimize investment risk by investing in instruments that are insured, collateralized, or backed

by the full faith and credit of the U.S. Government while seeking to obtain a competitive yield on the total portfolio.

## **RISK MANAGEMENT**

Bernalillo County operates a Risk Management program within the Budget and Finance Division. This program has an aggressive loss control and safety program. Through claims control efforts and the safety program, the County has been successful in holding insurance premiums to a moderate increase during the past year. The County is a member of the Workers' Compensation and Multi-line Insurance Pools administered by the New Mexico County Insurance Authority. The Workers' Compensation Pool provides coverage for all Bernalillo County employees, including temporary and part-time workers. The premium depends upon the total payroll and loss experience specific to each County. The pools are authorized by joint powers agreements and are funded entirely by member contributions.

## **INDEPENDENT AUDIT**

New Mexico State Statute 12-6-3, NMSA 1978 Compilation requires that an annual audit of a governmental unit's accounting records and Comprehensive Annual Financial Report be performed by independent public accountants. The audit for the fiscal year ended June 30, 2004 was performed by the firm of Meyners and Company, LLC. Federal law also requires that a single audit be performed for federal grant funds in conformance with the provisions of the Single Audit Act of 1984 and OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." All information related to the single audit, including the schedule of expenditures of federal awards, findings and recommendations, and the independent auditors' reports on the internal control structure and compliance with applicable laws and regulations are included in the Single Audit Section.

## **ACKNOWLEDGEMENTS**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the Budget and Finance Division. We also would like to express our appreciation to all departments who assisted and contributed to the preparation of this report. The Board of County Commissioners is recognized for their stewardship in conducting the financial operations of the County in a responsible and progressive manner.

Sincerely,

Thaddeus Lucero  
County Manager

Daniel J. Mayfield  
Deputy County Manager – Budget and Finance Division